

**BANK INDONESIA REGULATION NO. 20/13/PBI/2018 ON
RUPIAH INTEREST RATE DERIVATIVE TRANSACTIONS**

1.	Q	:	What is the objective of this BI regulation issuance?
	A	:	<p>In order to support domestic economy development, various alternatives sources of funding and investments facilities are highly required, primarily to give security against the turbulences in the increasingly dynamic financial market. In line with the issuance of daily reference rate, namely IndONIA, and strengthening of pricing guideline against transactable JIBOR quotation, the determination of pricing of all instruments and loans in the financial market is expected becomes more transparent and credible to support monetary transmission for economic improvement in the future.</p> <p>Through issuance of this BI regulation, it is expected clarity exists for market participants on the mechanism of rupiah interest rate derivative transactions both as the consequence of existing regulations by the authority and under market convention in hedging or positioning to face any interest rate fluctuation in the future.</p> <p>The wide choice of instrument that may transfer interest rate risk in the financial market and is supported by clarity of the rules is expected to provide flexibility for economic participants in making choices that are considered efficient both in term of financing and investment.</p> <p>Some other benefits through issuance of this regulation include:</p> <ul style="list-style-type: none"> • Support establishment of a yield curve to support more efficient price discovery in the money market and bond market. • Strengthen monetary policy transmission to financial sector with longer tenor, where OIS and IRS transactions may be used as tools to view market expectation of interest rate movement going forward and clarify outlook of interest rate risk premium. • encourage development of bonds market, for both bonds issued by the government and corporations with management pattern usable by each economic participant towards a more efficient and longer term direction, including for infrastructure financing.

2.	Q	:	What are the differences between derivative provisions in the previous BI regulation and derivative provisions in BI regulation on Rupiah Interest Rate Derivative Transactions?
	A	:	<p>There are some fundamental differences in this BI regulation compared to the previous BI regulation as follows:</p> <ul style="list-style-type: none"> • Focuses on regulating plain vanilla derivative transactions pertaining to interest rate, primarily for rupiah-denominated transactions. • Clearly regulates transactions participants, namely banks and customers who meet certain classifications and foreign parties, through a certain transaction mechanism. • Accommodates market convention which may encourage uniformity transaction operations. • encourage the use of IndONIA and JIBOR, nominal value, tenors, and various bank's obligations in conducting derivative transactions, among others application of the prudential principles and risk management, consumer protection, education to customers, dissemination of treasury certification obligation by banks, and reporting by banks referring to the relevant authority's regulation. • All derivative transactions of interest rate are prioritized to be settled through netting • Introduces close-out netting clauses to the extent they are agreed in a contract and prior to any insolvency decision is issued by the court. • Regulates bank's obligations to submit information on new products for structured product transactions.
SCOPE OF RUPIAH INTEREST RATE DERIVATIVE TRANSACTIONS			
3.	Q	:	What does overnight index swap transaction mean?
	A	:	<p>"Overnight index swap" transaction is a contract/agreement between 2 (two) parties to periodically exchange the flow of interest rate in rupiah during a contract period or at the completion of the contract based on a certain notional (principal) amount calculated on a daily compounding basis. Overnight index swap transactions constitute interest rate swap transactions calculated on a daily compounding basis.</p>
4.	Q	:	Are Rupiah Interest Rate Derivative Transactions, such as interest rate swap, overnight index swap, forward rate agreement, and interest rate option, plain vanilla derivative transactions?
	A	:	<p>Yes. Rupiah Interest Rate Derivative Transactions including <i>interest rate swap</i> transactions (including <i>overnight index swap</i> transactions), <i>forward rate agreement</i> transactions, <i>interest rate option</i> transactions, <i>interest rate futures</i> transactions, and</p>

		<p>other derivative transactions are plain vanilla derivative transactions.</p> <p>In the event of Bank plans to issue a new product in the form of a structured product pertaining to Rupiah Interest Rate Derivative Transactions, the Bank is required to submit information to Bank Indonesia upon receipt of an effective statement from the banking authority.</p>
PARTICIPANTS OF RUPIAH INTEREST RATE DERIVATIVE TRANSACTIONS		
5.	Q :	Who can conduct Rupiah interest rate Derivative Transactions?
	A :	<p>The following parties may conduct rupiah interest rate derivative transactions:</p> <ul style="list-style-type: none"> Currently, under the criteria of banking authority, Banks with Buku 2, 3, and 4 for plain vanilla derivative transactions. Customers under certain classifications as follows: <ul style="list-style-type: none"> a) any legal entity other than Bank must have minimum capital of Rp5,000,000,000.00 (five billion rupiah) and have been conducting their business activities for at least 12 (twelve) consecutive months; and b) an individual Customer must have asset portfolio in the form of cash, current account (giro), savings, and/or deposit of at least Rp5,000,000,000.00 (five billion rupiah). Foreign Party.
CONTRACT FOR RUPIAH INTEREST RATE DERIVATIVE TRANSACTIONS		
6.	Q :	Must Derivative Transactions of Rupiah Interest Rate be under a contract?
	A :	<p>Yes, any Bank conducting Rupiah Interest Rate Derivative Transactions with a Customer, Foreign Party, and/or any other Bank must be based on a contract except for the following transactions:</p> <ul style="list-style-type: none"> a. between a Bank and its branch office; b. between a Bank's branch offices; and between the branch office of a Bank domiciled overseas and its headquarter or another branch office overseas.
MARKET CONVENTION		
7.	Q :	What does market convention mean?
	A :	Market convention means technical matters pertaining to Rupiah Interest Rate Derivative Transactions compiled and agreed by market actors through the association of market participants, such as Indonesia Foreign Exchange Market Committee.
8.	Q :	What does the market convention regulate?
	A :	The market convention regulates among others the number of days in a year as the calculation basis, the number of decimals,

			transaction settlement dates, and interest payment when it is due.
NOMINAL VALUE AND TENOR			
9.	Q	:	Are there any provisions for minimum and maximum nominal value in a contract for Rupiah Interest Rate Derivative Transactions?
	A	:	The minimum Rupiah Interest Rate Derivative Transactions is Rp1,000,000,000.00 (one billion rupiah), while the maximum nominal value refers to the bank's decision based on an analysis of requirements for conducted derivative transactions.
10.	Q	:	Are there any provisions for minimum and maximum nominal value and tenor in a contract for Rupiah Interest Rate Derivative Transactions?
	A	:	The tenor of a Rupiah Interest Rate Derivative Transactions shall be 1 (one) week, 1 (one) month, 3 (three) months, 6 (six) months, 9 (nine) months, 12 (twelve) months, or any other tenors.
ANALYSIS OF REQUIREMENTS FOR RUPIAH INTEREST RATE DERIVATIVE TRANSACTIONS			
11.	Q	:	Are there any obligations to use underlying in Rupiah Interest Rate Derivative Transactions?
	A	:	<p>Unlike regulation on exchange rate derivative transactions, underlying is not specified in this BI regulation because the development of derivative market of rupiah interest rate is still at an early stage and interest rate fluctuation is relatively more limited compared to the exchange rate, and therefore, it also affects the encountered risk magnitude. However, in addition to complying with the relevant authority provisions for derivative transaction activities, any banks conducting rupiah interest rate derivative transactions are also required to conduct the following:</p> <ul style="list-style-type: none"> • For the interest of Customers, Banks and Customers: is required to analyze the requirements for rupiah interest rate derivative transactions; • For the interest of Foreign Parties, Banks and Foreign Parties is required to analyze the requirements for rupiah interest rate derivative transactions. • Banks and other Banks: are exempted from the obligation to analyze the requirements for rupiah interest rate derivative transactions. <p>This obligation is intended to obtain certainty that rupiah interest rate derivative transactions required to be conducted by various parties are not for speculations, but as means of hedging and positioning against the dynamic interest rate fluctuation going forward of real economic activities. Therefore, Banks must be able to prepare, administer, and store evidence of the analysis of requirements</p>

			for Rupiah Interest Rate Derivative Transactions which are based on economic activities of transacting parties exposed to rupiah interest rate risks.
12.	Q	:	Is a Bank required to conduct analysis of requirements for Rupiah Interest Rate Derivative Transactions against each transaction participant?
	A	:	Interbank Rupiah Interest Rate Derivative Transactions is not required to be supported by an analysis of requirements. Meanwhile, analysis of requirements for Rupiah Interest Rate Derivative Transactions is required to be conducted by a Bank with Customer or Foreign Party to the extent an initiative to conduct the Rupiah Interest Rate Derivative Transactions does not come from the bank.
13.	Q	:	What economic activities may be used as the basis for a Bank to conduct analysis of requirements for rupiah interest rate derivative transactions?
	A	:	Economic activities which may serve as a Bank's consideration among others include the following: a) investments in the form of deposits, negotiable certificates of deposits, commercial papers bonds, and other domestic investments in rupiah; b) loans in the form of credit in rupiah and/or securities issued in rupiah; c) position of assets and/or liabilities; and/or d) any other economic activities.
SETTLEMENTS OF RUPIAH INTEREST RATE DERIVATIVE TRANSACTIONS			
14.	Q	:	What is the mechanism of settlement of Rupiah Interest Rate Derivative Transactions?
	A	:	Rupiah Interest Rate Derivative Transactions may be settled through netting by each party to a transaction for each payment period and is required to use rupiah.
15.	Q	:	Is it possible to apply close-out netting to Rupiah Interest Rate Derivative Transactions?
	A	:	Close-out netting may be applied to Rupiah Interest Rate Derivative Transactions if one of the parties are in default and to the extent it is required or agreed under a contract and applied prior to any insolvency decision issued by a court.
REPORTING			
16.	Q	:	What is the mechanism of reporting of Rupiah Interest Rate Derivative Transactions?
	A	:	Any Bank which meets the criteria for conducting Rupiah Interest Rate Derivative Transactions is required to submit reports on

			Rupiah Interest Rate Derivative Transactions through the reporting system determined by Bank Indonesia. The provisions for reporting mechanism refer to the Bank Indonesia provisions on reporting system of Bank Indonesia.
OTHERS			
17.	Q	:	Is a Bank allowed to conduct structured products derivative transactions with rupiah interest rate?
	A	:	A Bank may conduct derivative transactions in the form of structured products with rupiah interest rate by referring to the applicable laws and regulations.